PREAPPEAL CONFERENCE BRIEF

Claims 1-151 are rejected as being obvious under 35 U.S.C. § 103(a) over Rusnak et al., US 6,098,056. The Examiner indicates that the claimed elements relating to implementation of a legal trust are merely nonfunctional descriptive matter, which allegedly renders them ineffective to distinguish the art, and that the remaining claim language reads on the prior art.

The meaning of the word "trust" is not substantially disputed between applicant and examiner: both agree that a trust as encompassed by the claims relates to a legal structure in which a grantor transfers legal title of a corpus to a trustee, who agrees to act for a beneficiary, who holds equitable title to the corpus. (See Trust Operations, p. 6). This definition is substantiated by the references cited by the examiner. However, the patentable impact of this defined relationship between the three parties is disputed. In fact, the examiner admits that, but for the exclusion of consideration of the trust and its elements as potentially patentable features, the application would overcome the Rusnak et al. reference. (See paragraphs 6 and 11 of Office Action). The issue to be considered is whether a legal structure which defines the elements of a claim, and which materially alter various outcomes relating to the relationship between claim elements, is to be deemed functional or non-functional.

The examiner states that "in creating a trust, the claims are merely implementing a certain set of rules for access to the records." However, this conclusion does not resolve the inquiry. Just as in computer software, there is information which recites instructions for controlling a processor, and data, upon which those instructions operate, the former of which are patentable under Diamond v. Diehr, and the latter of which are often non-functional or descriptive under In re Warmerdam, and therefore akin to simple written materials. As expressed in the present claims, the rules are applied by an automated system. Therefore, the trust "access rules" are completely analogous to coded instructions for a processor, and are tied to a physical apparatus, for selectively granting access to a record in a database. In addition, the system is subject to laws governing a set of relationships between parties under a trust, which control an interpretation of the rules. The trust thus defines a set of rights and responsibilities of each party to the transaction, and defines the context of operation. These rights and responsibilities have a material effect on outcome and relationships between parties. A few simple examples may prove illustrative. If the rules were simple "legal rules", they would be unequivocally enforced without discretion. On the other hand, a trustee is required to exercise discretion, and failure to do so

would be deemed a breach of fiduciary duty. Therefore, unlike a contractual agreement which imposes rules, a violation of which defines a breach of the contract, in a trust environment, a trustee may be forced to transgress a rule in order to avoid liability. Because of at least this factor, the trust framework materially and functionally differs from the contractual framework, and the structures and methods therein must be considered patentably distinct.

The reference "Trust Operations" (cited by the Examiner) outlines the following differences between organizations that operate under the law of creditor/debtor relations (a bank) and those which operate as a trust (see p. 3):

> Throughout the late nineteenth century, separate institutions housed trust and banking because of the following essential functional differences.
> • A bank is built essentially on a debtor/creditor relationship. Either the bank owes money to its customers (the nature of deposits in checking and savings accounts) or customers owe money to the bank (the nature of loans). A customer's deposits are used to make loans to other customers. But a trust department within a bank or a stand-alone trust institution does not mix customers' monies-a trust organization accepts customer money, property, and intangible assets for the purpose of safeguarding and managing investment. Although a customer's deposits on the banking side become assets of the bank, trust deposits do not. Trust deposits remain the assets of the customer.
> • A bank can invest customers' deposits by making loans and buying securities to make profits for the bank. In contrast, a trust organization cannot profit from the investments it holds and manages for its trust customers. A trust organization earns income-and hopefully profits-from the fees charged for its products and services.
> • Different laws and regulations govern banks and trust organizations....
> • Customers' money is protected differently in a bank than in a trust organization. In trust accounts, money is protected by the trust agreement and trust laws and regulations, but it is not guaranteed. Deposits in the bank, however, are covered to an extent by insurance that serves as a guarantee against loss....

It is therefore respectfully submitted that even the Examiner's own reference focuses on the differences in law and structure as being CRITICAL, and these cannot simply be ignored.

There are a number of tests and analyses which are instructive for distinguishing between allegedly "merely descriptive" material and structural features of a claim. These tests and analyses essentially seek to determine whether the structure or function is modified or controlled by the respective feature in question, or whether the feature is immaterial to the structure or function. If the allegedly structural or functional feature does not interact within the context of the claimed elements, then it is (at most) merely descriptive of the elements or outcome. On the other hand, where the allegedly merely descriptive material is decisive in altering a structure or function, or alters the character or effect of the resulting structures or function, then it is not merely descriptive, and must be afforded full patentable weight.

In the present case, the trust architecture and the rules which provide instruction to the trustee are not merely a non-functional data structure maintained in a database, but are rather a functional part of the invention. While the content of the records themselves may be "non-functional descriptive material", that is not the issue presented for consideration. The set of access rules and the laws governing their operation and interpretation and the inherent discretion of the trustee to abide by these rules (and indeed, the fiduciary duty to disregard the rules in some circumstances) is quite clearly "functional" and controls the operation of the system and is an important part of the claimed method. Indeed, applicant respectfully submits that the trust elements themselves are not informational in character and are therefore outside the scheme of the Federal Circuit "descriptive material" analysis of In re Warmerdam. In re Warmerdam, 33 F.3d 1354, 31 USPQ2d 1754 (Fed. Cir. 1994) held that a claim to a data structure per se was nonstatutory subject matter unless the data structure caused functional change in the computer. The trust in this case is not itself a data structure, but defines the relationship between elements, operation of the system, and enforcement mechanisms. In fact, the data structure is itself a distinct claim element, i.e., the "records". In re Gulack, 703 F.2d 1381, 1385, 217 USPQ 401, 404 (Fed. Cir. 1983), held that when descriptive material is functionally related to the substrate, the descriptive material is capable of distinguishing the invention from the prior art, and the rules are more akin to this material than to non-functionally related information, since these elements are neither "stored" nor merely "information" at all, but rather represent an identification of the structural elements of the claim and their function. The patentability of the claims is not predicated on the content of the rules or records, and thus the claims fall outside the proscriptions of the non-functional descriptive matter analysis of patentability.

Claim 1 recites an essentially structural and/or functional purpose and effect of the trust: to separate legal and beneficial ownership of digital property. "Establishing" and "using" the trust thus has the purpose and effect of altering the rights, duties and relations of multiple parties, including the "original owner", the trustee, beneficiaries, and various third parties who seek to engage in transactions with one of the other parties. In providing these structurally and/or functionally defined roles and relationships, the claims go beyond merely describing unrelated attributes of the parties to the transaction. They rise to the level of meaningful claim limitations. Not only does the "trust" serve as a structural and/or functional component of the claims, but the "trustee" does as well. In this case, a trustee operates an access control system. This is

structurally and functionally different than a system that does not use a trust and a trustee. The use of a trust alters the rights and roles of the original owner of the corpus (e.g., a record). Upon entering into a trust agreement, the "original owner" splits his or her ownership interest, transferring his or her interests in the property (e.g., the record) to the trustee(s) and beneficiaries. A trustee is considered a legal owner of the property, while a beneficiary is considered a beneficial (equitable) owner of the property.

Rusnak et al. relates to, or invokes, merely contractual relationships between parties to delegate to an intermediary access control responsibility for information. Indeed, it is the limitations of such contractual structures and their implementation that the present invention addresses. Inherent in a mere contractual relationship, in which a trust is not established, is a requirement to rely on the veracity and resources of a counterparty party, such that a damages judgment under law provides an effective remedy in case of breach. This available limited remedy poses issues where a party's financial situation might deteriorate, or where that party does not have sufficient resources in case of a likely adverse judgment. Further, a party who gains title to property under contract can encumber or transfer that property generally without regard to its prior owner. A "trusted information handler" operating under a contractual framework, i.e., a simple agreement between the parties, as disclosed by Rusnak et al., is not a trustee, and the rights and obligations of the respective parties to the transaction contemplated by Rusnak et al. are not controlled by the laws governing trusts. The information handler is advantageously "trusted" in part because the contractual framework itself does not fully protect the interests of the digital rights owner. In the absence of a "trusted information handler", the system and method described by Rusnak et al. has significant deficiencies.

A "trusted information handler" cannot be simply replaced within the context of the original agreement, while a trustee may be substituted by Order of a Court while maintaining the trust. Trusts will not fail for want of a qualified trustee to administer the trust estate. The bankruptcy laws compound the situation, potentially locking an asset within a bankruptcy estate for a protracted period, and permitting various creditors to assert rights in the assets of the debtor. If ownership of a record were legally transferred to a contractual intermediary, all rights to the record could be extinguished by bankruptcy of the contractual intermediary. In contrast, the bankruptcy of a trustee would not generally impede the rights of the beneficiary, and a Court could appoint a new trustee to administer the trust agreement. Therefore, applicant particularly

takes issue with the equivalency of a "trusted information handler" and a trustee, and requests explicit reconsideration of this finding.

Traditionally, the duties of trustees have been manually performed, and discretion provided personally and individually. In contrast, the efficient automated system of the type now claimed facilitates a trust structure which is automated, making administration of the trust and effect of its purpose more efficient. Applicant has conceived that the benefits of an automated implementation while permitting valuable information to be protected and exploited while avoiding limitations of the contract structure.

A trustee has the initial legal right to seek damages relating to the corpus, but the beneficiary may bring an action if the trustee neglects or fails to do so. Therefore, an efficient enforcement mechanism is provided under a trust architecture which is not possible in contract without offending rules against champerty.

Another difference is in the relationship with the parties seeking access to the property. A trustee can grant no rights in the trust corpus outside the scope of his trust authority. In contrast, a third party may acquire rights inconsistent with other legal obligations of a merely contractual intermediary, with that intermediary simply liable for damages for breach of the legal obligations.

The trust structure thus leads to materially different results in many circumstances compared to contract-based alternates, and is governed by a different set of laws and procedures, resulting in structurally different transactions. The fact that the governing laws are man-made, and perhaps written, does not render the application of those laws "merely descriptive", the relevant inquiry. Likewise, the fact that the problem to be solved is a social or legal problem is also not dispositive of the patentability of the invention.

It is clear in this case that the trust, trustee, beneficiary, instructions to a trustee, and jurisdictional law of trusts are simply not printed or non-functional descriptive matter, and therefore the rejection predicated on ignoring these elements is unfounded. Neither MPEP 2106, nor any other provision of the US patent laws, US Patent and Trademark Office rules, and MPEP, provides a basis for sustaining the rejection. It is therefore respectfully requested that the rejection be reversed.